



STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board
Pete T. Cenarrusa, Secretary of State
Alan G. Lance, Attorney General
Keith Johnson, Acting State Controller
Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

Final Minutes Regular Land Board Meeting December 10, 2002

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, December 10, 2002 in Boise, Idaho. The meeting began at 9:14 a.m. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Pete T. Cenarrusa
Honorable Attorney General Alan G. Lance
Honorable Acting State Controller Keith Johnson
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

• **CONSENT AGENDA**

Director Wiggins provided background information on the Consent Agenda items.

A motion was made by Attorney General Lance to approve the Consent Agenda in its entirety. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0.

1. Director's Report – approved

- A. Interest Rate on Department Transactions – November 2002
- B. Bureau of Surface and Mineral Resource, Minerals Section, Official Transactions – October-November 2002
- C. Bureau of Real Estate, Land Sale Section, Official Transactions – November 2002
- D. Bureau of Real Estate, Easement Section, Official Transactions – November 2002
- E. Bureau of Surface and Mineral Resources, Range Management and Surface Leasing Section, Official Transactions – October 2002
- F. Timber Sale Official Transactions – October 31, 2002 through November 27, 2002
- G. Timber Sale Activity Report

Timber Sale Activity Report Discussion: Director Wiggins stated that this report shows the status of IDL's timber sale activity through the last month and also through the fiscal year-to-date. IDL has reduced its timber sale revenue projections. The revised projections have been conveyed to the Endowment Fund Investment Board.

Attorney General Lance asked Director Wiggins if there are specific reasons for the decline in timber sale revenues. Director Wiggins responded that the state is still receiving decent prices for timber at the bid table. The problem appears to be people backing off on actual harvest. In discussions with the industry, Canadian lumber surfaces as a key issue.

2. Timber Sales – Staffed by Bob Helmer, Chief, Bureau of Forest Management – approved

A. Snake Seed	CR-4-0765	3,510 MBF
B. Brown's Pond	CR-5-0112	6,622 MBF

3. Application for Qualified Bidders List, Timber Sales – Staffed by Bob Helmer, Chief, Bureau of Forest Management – approved

A. Clifford Kleer Logging, 12877 Hartford Avenue, Orofino, Idaho 83544

4. Conceptual Approval for Department of Lands/Department of Fish and Game Land Exchange – Staffed by Perry Whittaker, Chief, Bureau of Real Estate – approved

DEPARTMENT RECOMMENDATION: That the board conceptually approve this exchange proposal and direct the department to proceed with the cruise and appraisals.

BOARD ACTION: Approved.

5. Minutes – approved

A. Regular Land Board Meeting – November 12, 2002

• REGULAR AGENDA

6. Endowment Fund Update – Presented by Richelle Sugiyama, PERSI

Endowment Fund Update: Ms. Sugiyama reviewed handout materials and provided background information. The beginning value for the endowment fund was approximately \$682,000,000. As of November 30, 2002 the end value was just under \$646,000,000. During the month of November the EFIB rebalanced the asset allocation to 70% equity and 30% fixed income. Two managers, Trainer Wortham and Nicholas Applegate, are currently on watch by RBC Dain, the consultant.

Cash Flow Issue: The issue being brought before the board is a possible negative cash flow position at the end of July 2003. According to the Attorney General's office, the Endowment Fund Investment Board is not allowed to deficit spend. One alternative is for the EFIB to have direction from the Land Board to make partial payments. If that is not an option, the EFIB is looking for direction as to whether any type of legislative change would be required, and, if so, what kind of change.

The second issue is more long term in nature. In February 2004, another negative cash flow position will occur. If a significant market increase is experienced, the negative cash flow position may be avoided. However, if a negative cash flow position presents itself in that February 2004 period, there may be a problem in terms of interpretation of the statute. The EFIB is seeking guidance from the Land Board.

DISCUSSION: Governor Kempthorne asked if it is an issue of timing. Ms. Sugiyama responded that it is an issue of timing in the sense of whether public schools can accept partial payments. Governor Kempthorne commented if public schools received partial payments, they would, in fact, receive the full payment by the end of the year. Ms. Sugiyama stated that is correct. The issue is the EFIB does not have the discretion to make the partial payments.

Governor Kempthorne commented that the new manager has been hired and will be on board by the first part of January. It would appear all states dealing with investment funds are in the same predicament. Ms. Sugiyama agreed. Many states, particularly those with pension funds, are in the process of considering increased contribution rates or looking at the status of their funds due to market losses.

Attorney General Lance asked about the timeframe in question. Ms. Sugiyama stated it is dependent on how the Land Board would like the Endowment Board to proceed. The Attorney General's office is looking into the issue to see if any type of legislative change is required. If legislative change is required, the thought is to have changes passed during the next legislative session. If, however, the Attorney General's office or the Land Board decides that there are no legislative changes to remedy the situation, the EFIB would then require direction from the Land Board. Attorney General Lance asked Deputy Attorney General Clive Strong if it is the tentative conclusion of the Attorney General's office that these anticipatory payments under an existing statutory framework are not permissible. Deputy Attorney General Strong stated that is correct. Attorney General Lance then suggested that if the new board believes it is a good idea to pursue this option, initial considerations show that legislative alteration of existing statutory framework would be required.

Dr. Howard commented that it appears to be a timing issue. She wondered if the EFIB could, in a sense, allocate the money by creating a payment schedule that would allow payments over a period of time. In other words, is there a way to accomplish this in a fluid manner without a lot of difficulty. From the public school perspective, stability is an important factor and knowing that money will be coming does create stability.

Attorney General Lance suggested that the board set up a sub-committee to look into this matter. He recommended Dr. Howard, Acting Controller Johnson and Attorney General-Elect Lawrence Wasden as members of the sub-committee.

BOARD ACTION: No action was taken on this agenda item.

7. Mine Reclamation Fund, Proposed Policy – Presented by Jay Biladeau, Assistant Director, Lands, Minerals, Range – WITHDRAWN

DEPARTMENT RECOMMENDATION: That the board direct the department to implement the proposed policy and begin the rulemaking process.

BOARD ACTION: This agenda item was withdrawn.

At this point, Governor Kempthorne acknowledged former State Controller J. D. Williams in the audience. Governor Kempthorne commented that this is a turning point for the State of Idaho. The excellent work and the many years of service by Secretary of State Pete Cenarrusa, Attorney General Al Lance and State Controller J. D. Williams will be an inspiration to all. As these three board members leave this particular phase of public service, they leave knowing they have established an outstanding reputation. Governor Kempthorne commented it has been his pleasure to have served with these board members for the past four years.

Attorney General Lance stated eight years ago when he first had the opportunity to serve on this board, it was a rude awakening in terms of the amount of critical work completed by the board and its staff. Their collective work has a tremendous impact in terms of policies, income, management, etc. It is truly a huge and daunting challenge. Attorney General Lance congratulated Director Wiggins for his management of the Department of Lands.

Secretary of State Cenarrusa stated it has been a pleasure to serve the people of the State of Idaho. On January 6, 2003, Secretary of State Cenarrusa will have served on the board for 35 years, eight months and six days.

Former Controller Williams stated he has had the opportunity to do incredibly interesting work during his service to the State of Idaho. A big part of his experience involves either technology or the Land Board. He appreciates the collaboration, consensus and camaraderie among the board members and staff. He thanked all of the staff involved with providing support to the board. He congratulated Director Wiggins for a job well done. He also recognized Gino White for his hard work and assistance.

Controller Williams stated when he first came to the Land Board on March 1, 1989, the endowment fund balance was \$335 million. The last balance given for the fund was approximately \$644 million. The fund has gone up over \$300 million. If changes had not been made, distributions to schools from a pure bond operation would have been far less. Controller Williams stated there is no doubt in his mind, looking from a historical perspective from what other states have done, that this board has made the right decisions to position the state for the future of the endowment fund. By holding the course, the school children of Idaho will have incredible returns as beneficiaries.

Dr. Howard commented the board is a body that works with a clear intent governed by the Constitution. She recognizes her fellow board members as people of principle and integrity and she appreciates working with them.

Director Wiggins commented that he has learned a great deal through his association with the board members through the years. He thanked the board for their support of the work of the Department of Lands staff and he wished the departing board members well in their future endeavors.

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- At 10:10 a.m. a motion was made by Attorney General Lance to resolve into Executive Session. Secretary of State Cenarrusa seconded the motion. The motion carried on a vote of 5-0. A brief recess was taken before the start of the Executive Session. The Executive Session began at 10:25 a.m.

- **EXECUTIVE SESSION**

- A. To Consider Personnel Matters** *[Idaho Code § 67-2345(1)(b)]*

- B. To Consider and Advise Its Legal Representatives in Pending Litigation or Where There is a General Public Awareness of Probable Litigation** *[Idaho Code § 67-2345(f)]*

- At 11:15 a.m. the board resolved into Regular Session. No actions were taken by the board during the Executive Session.

There being no further business to come before the board, the meeting adjourned at 11:15 a.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ Dirk Kempthorne

President, State Board of Land Commissioners and
Governor of the State of Idaho

/s/ Ben Ysursa

Ben Ysursa
Secretary of State

/s/ Winston A Wiggins

Winston A Wiggins
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the January 14, 2003 regular Land Board meeting.